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SUBJECT: Brazil: WTO Amb Azevedo Meeting with DUSTR Veroneau

1) (SBU) SUMMARY. On the margins of the October 10 CEO Forum, DUSTR John Veroneau met with new WTO Ambassador (and former MRE Economics Undersecretary) Roberto Azevedo. Veroneau emphasized the importance of sectorals and sought Azevedo's perspective on the the U.S.-Brazil trading relationship. Azevedo explained industry lack of interest in sectorals, explored the potential for bilateral trade discussions, and offered his perspective on the Doha Development Round. END SUMMARY

SECTORALS

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12. (SBU) Veroneau indicated that sectoral tariff initiatives in the Doha Round are essential for the U.S. to accept a modalities agreement in the non-agricultural market access (NAMA) negotiations.

Azevedo noted that Brazilian industry sectors are not in general competitive worldwide. Brazil does have globally competitive agricultural sectors, but agricultural producers have for the most part already turned their attention to bilateral agreement opportunities rather than additional WTO efforts. On the industrial side, especially autos, sectors mainly have defensive rather than offensive interests and do not want to pursue sectoral agreements.

BILATERAL FTA NEGOTIATIONS

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13. (SBU) Azevedo noted that, with regard to Brazil's bilateral trade, there is considerable momentum in Brazil to complete the FTA with the European Union, with industry, agriculture and services interests all pressing for an agreement. Azevedo indicated that, if the Round stalls, negotiations will probably move forward on a much more reciprocal footing than was the case in 2004. The Brazilian textile sector strongly supports an EU FTA, the auto sector sees opportunities, and even the footwear industry supports as its production is complementary to the EU's output. Azevedo stated the EU thinks concluding an FTA will be possible on their side if their agricultural commitments are manageable. The agreement draft is "pretty comprehensive" in market access terms, but does not contain IPR, investment or services commitments, Azevedo confirmed.

14. (SBU) In contrast, exploration of an FTA with Korea is more problematic, as Brazilian industry directly competes with Korean production and is not interested in an agreement. Azevedo commented that FTAs with tiny developing country markets such as South Africa are easy to negotiate because they are so small without much trade effect. He offered that it is easier, in his view, to work bilaterally with mature markets like the US and the EU than with other countries. He used the example of the unproductive GCC FTA-Mercosul negotiations: Brazil imports no chemicals from the GCC, but the Brazilian chemicals industry is still against an FTA, because they feel GCC members are investing now to become a player eventually in the chemical production sector. Industry is more comfortable with the United States, a well-known, large and mature market, with a "smaller number of variables" than negotiating access

with countries like Vietnam, India, and "god knows what will come from the Middle East" that "are on the periphery today but won't be in the future."

15. (SBU) Veroneau noted that, for the last several years, the U.S.-Brazil bilateral trade relationship has been defined by the WTO Doha Round. He asked Azevedo how he sees the trade relationship over the next few years. Azevedo underlined that trade negotiations with the United States is a primary objective of the Brazilian private sector. He commented that a model similar to the EU FTA would be doable. Azevedo noted Uruguay and Paraguay support negotiations and Argentina would need some convincing. He commented that Mode 3 (pre-establishment) investment commitments would be easy to include, but the investor protections/ arbitration mechanism included in US BITs would be unlikely to be feasible. Similarly, Brazil is unlikely to be able to include IPR in an agreement; Azevedo recalled that TRIPS was almost a dealbreaker in convincing Congress to ratify the WTO agreements. That said, Azevedo commented that opinions in Congress are slowly evolving - "people are getting used to the thought that IP speeds innovation, but (this mindset change) takes time." Azevedo also referenced the IPR politics surrounding pharmaceutical pricing/public health policy in Brazil, but felt that issue could ultimately be contained through WTO rules already in place. He emphasized IPR enforcement is a primary sticking point - while there is growing sentiment in Brazil that IP should be protected, GOB does not currently have the means to enforce effectively. In addition, more effective enforcement mechanisms would require legislative changes that, in Azevedo's view, are highly unlikely to receive a receptive hearing throughout the Congress at this time - a "dealbreaker, more than anything else" in Azevedo's words.

BRASILIA 00001407 002 OF 002

16. (SBU) After confirming Brazil would "not want to negotiate a package like other US FTAs in Latin America," Azevedo again stressed that "if we could moderate the appetite in some areas, we could do something, because there is appetite" in Brazil for an agreement with the United States. Noting the conversation would be in 4+1 format, he noted Venezuela's eventual entry into Mercosul would pose additional challenges. He stated that FTAA "got stigmatized" for GOB and a similar structure would not work this time. He said the sensitive auto sector wants an agreement with the US, while strongly resisting a WTO agreement; similarly the textile sector supports bilateral negotiations with the US. Nonetheless, Azevedo noted, securing a multilateral agreement lays the foundation for future bilateral agreements.

WTO - DOHA
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17. (SBU) Azevedo believed that Doha would be concluded in the next few years, because the substance is mostly done; "the challenges are political." He pointed to the SSM and Japan/G10 demands for agricultural exceptions as political issues. India's objections are based on politics. He thought issues like ethanol or cotton were not dealbreakers today, but hard to predict in a couple of years if the politics change. He commented other non-issues today could become volatile in the future. He said President Lula recognized the risks in managing the politics of an agreement, but was comfortable in deciding to take on those risks and press for an agreement. Finally, he stated that issues like subsidies, rules, investment and IPR can only be addressed in multilateral negotiations and opined that, while tariffs can be addressed in bilats, "two Rounds from today" tariffs will be minimal/a marginal issue.

TRADE NEGOTIATIONS CONTEXT - BRAZIL TODAY
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18. (SBU) Azevedo offered his perspective on challenges Brazil must manage as it approaches multilateral and bilateral negotiations. Brazil is no longer "cheap" in terms of land or labor, he commented. Brazil's infrastructure (roads, energy access, etc) leave much to be desired. Brazil has "a lot of work to do" to be "completely open and competitive worldwide." In this context, opening Brazilian

markets to others' competitiveness "feels nervous" to key stakeholders. He noted that Brazilian industry complains it does not have a domestic environment to foster competitiveness. Azevedo enumerated examples like changes in labor law Brazil must make to create the conditions for a more open economy and an insufficiently dense financial system that can not make enough credit available. With many Brazil companies not confident they can compete internationally (COMMENT: and with legislative reforms, such as tax, IPR enforcement, regulatory system and labor reforms, politically extremely challenging to advance in Brazil), resistance to liberalization must be continually managed.

19. (SBU) COMMENT: Not surprisingly in the extremely well coordinated Ministry of External Relations, Ambassador Azevedo's comments tracked closely with Mission conversations with other parts of MRE and with industry and agricultural interests in Brazil regarding both multilateral and bilateral negotiations possibilities. Brazil is doing all it can to achieve a Round conclusion this year, including FM Amorim (accompanied by Azevedo) and President Lula discussions with India October 12 on the margins of the Brazil-India-South Africa Summit in New Delhi. At the same time, Brazil recognizes the significant political challenges complicating this objective. END COMMENT

USTR has cleared this message.

SOBEL